

EXHIBIT 22

AIR INDIA LIMITED

RECONSTITUTION OF BOARD OF DIRECTORS

MINISTRY OF CIVIL AVIATION

COMMITTEE ON PUBLIC UNDERTAKINGS

2003 - 2004

ELEVENTH REPORT

(THIRTEENTH LOK SABHA)

Presented to Lok Sabha on 19th December, 2003

Laid in Rajya Sabha on 19th December, 2003

**LOK SABHA SECRETARIAT
NEW DELHI**

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COMPOSITION OF COMMITTEE ON PUBLIC UNDERTAKINGS
(2003 – 2004)

Prof. Vijay Kumar Malhotra CHAIRMAN

**MEMBERS
LOK SABHA**

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3. Shri Ram Tahal Chaudhary
4. Smt. Reena Choudhary
5. Smt. Sangeeta Kumari Singh Deo
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8. Dr. Ramkrishna Kusmaria
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SECRETARIAT

- | | | |
|----|--------------------|----------------------|
| 1. | Shri John Joseph, | Additional Secretary |
| 2. | Shri S.Bal Shekar, | Director |
| 3. | Shri C.S.Joon, | Deputy Secretary |
| 4. | Shri Raj Kumar, | Under Secretary |
| 5. | Smt. Vidya Mohan | Executive Assistant |

INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorized by the Committee to present the Report on their behalf, present this Eleventh Report on 'Air India Limited-Reconstitution of Board of Directors.'

2. The Committee on Public Undertakings (2000-01) presented Fourth Report pertaining to Air India Ltd. to the Parliament on 19 March, 2001 and the Action Taken Report on the implementation of the recommendations contained therein was presented on 13 December, 2002. Recommendation No. 1 of the Fourth Report relates to reconstitution of the Board of Directors of Air India Limited giving due representation to Functional Directors and Non-official Directors in the Board as per the DPE guidelines of March, 1992 regarding composition of Board of Directors of public sector undertakings. As the matter regarding reconstitution of the Board of Directors of Air India Ltd. has been pending since April, 2000, the Committee decided to take evidence of the representatives of Ministries of Civil Aviation and Personnel, Public Grievances & Pensions in the matter. Accordingly, the Committee took the evidence of the representatives of both these Ministries on 20th October, 2003.

3. The Committee on Public Undertakings (2003-2004) considered and adopted the Report at their sitting held on 17th December, 2003.

4. The Committee wish to express their thanks to the Ministries of Civil Aviation and Personnel, Public Grievances & Pensions for placing before them the material and information they wanted in connection with examination of the subject. They also wish to thank the representatives of both the Ministries who gave evidence and placed their considered views before the Committee.

5. The Committee would also like to place on record their sense of deep appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

**New Delhi
17 December , 2003
26 Agrahayana, 1925(S)**

**PROF. VIJAY KUMAR MALHOTRA
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS**

PART – A

REPORT

RECONSTITUTION OF BOARD OF DIRECTORS OF AIR INDIA LIMITED

INTRODUCTION

According to the guidelines issued by the Ministry of Industry (Department of Public Enterprises) in March, 1992 (Annexure I); there would be three categories of Directors on the Boards of Directors of PSUs, namely, Functional Directors, Government Directors and Non-official Directors. Functional Directors are full time operational Directors responsible for day-to-day functioning of the Enterprises. Government Directors are appointed by the concerned Administrative Ministries and are generally officers dealing with the concerned enterprises, Non-official Directors are drawn from public men, technocrats, management experts and consultants and professional managers in Industry and Trade with a high degree of proven ability. They play a complementary role in providing professional and managerial advice to the Board.

2 After considering the question of professionalisation of Boards of Directors in pursuance of the New Industrial Policy Statement of July, 1991, it was decided that the number of Functional Directors should not exceed 50% of the actual strength of the Board; the number of Government Directors should not exceed one-sixth of the actual strength of the Board subject to a maximum of two and the number of non-official part-time Directors should be at least one-third of the actual strength of the Board.

BOARD OF DIRECTORS OF AIR INDIA LIMITED

3. The Ministry of Civil Aviation had issued an Order bearing No. AV/18012/2/97-AA dated. 12 December, 1998 regarding reconstitution of the Board of Directors which envisages appointment of four Functional Directors in charge of Commercial, Engineering, Finance and Personnel and five Non-official Directors in the Board of Directors of Air India Ltd.

4. When asked about the rationale behind this order, the Ministry of Civil Aviation in a written reply to the Committee informed :

“In accordance with the guidelines issued by the Department of Public Enterprises vide their OM dated 16.03.1992, the composition of the Board of Directors of Air India Ltd., [AI] should be as under:-

- (i) Functional Directors – Their number should not exceed 50% of the actual strength of the Board.
- (ii) Government Directors – Their number should not exceed 1/6th of the actual strength of the Board subject to a maximum of two Directors.
- (iii) Non-Official Part-Time Directors – Their number should be at least 1/3rd of actual strength of the Board.

In accordance with these guidelines and the relevant provisions in the Memorandum & Articles of Association, a proposal was sent to ACC on 10.12.1998 on reconstitution of the Board of Directors of Air India Limited, with the approval of the then Minister (CA). The approval of ACC was received on 12.12.1998 and based on that approval, an order No. AV.18012/2/97-AA dated 12th December 1998 regarding reconstitution of the Board of Directors was issued by the Ministry.”

5. In reply to an Unstarred Question No. 2595 dated 16.12.1999 in Lok Sabha, it has been stated that four Functional Directors and five non-official Directors in Air India Board were to be appointed.

6. When the Committee enquired to know whether these Functional Directors and non-official Directors have been appointed in the Board, Air India Ltd. have stated in a written reply as follows:

“Four Functional Directors in-charge of Finance, Commercial, Engineering and Personnel and Five Non-official Directors, as provided for in the Ministry of Civil Aviation’s Order No. AV18012/2/97-AA dated December 12, 1998 reconstituting the Board of Air India, are yet to be appointed on the Board by the Government.”

7. It was also stated that the posts of Functional Directors are full-time operational Directors responsible for day-to-day functioning of the enterprises. The Bureau of Public enterprises had issued guidelines in 1984 that the posts of Directors(Finance) and Director (Personnel) be created in all Schedule ‘A’ and Schedule ‘B’ enterprises and on a selective basis in Schedule ‘C’ Companies. Apart from these two functions, the enterprises could have representation at Board level for other disciplines such as production, marketing, project planning etc.

8. In a written reply furnished to the Committee, Air India has stated that the induction of Non-official Directors on the Boards of Public Sector Enterprises has been considered essential in order to make the Boards more professional. They are to be drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability.

9. When the Committee desired to know the role the Government Directors play in the Board of Directors, the Ministry of Civil Aviation stated in a written reply as under:

“The Government Directors participate fully in the deliberations of the Board and play an important role in guiding the company with regard to

the Government directions and instructions. Also they monitor the performance of the Company.”

10. The Committee in their Fourth Report which was presented to Lok Sabha on 19th March, 2001 recommended about the need for filling up the vacancies in the Board of Directors of Air India Ltd. as follows :

“The Committee find that there are no Functional Directors and also Non-official Directors in the Board of Directors of Air India for the last two years completely. The current Managing Director is the only person who is professionally conversant with the airlines business in the current Board of Directors which consists of four Government Directors and one professional manager. The Committee regret to note that the current composition of the Board of Directors is not at all in accordance with the guidelines issued by the Department of Public Enterprises (DPE) in March, 1992. The Committee also wish to point out that in the absence of any Functional Director on the Board, which should be actually 50% of the total strength, the Board of Directors of Air India could not get the appropriate inputs for decision making in such crucial areas as Personnel Management, Engineering, Financial and Commercial Management on which the profitability of Company definitely depend. The Committee feel that a professionally managed Public Sector Enterprise which has an ideal combination of Government Directors, Functional Directors and Non-official Directors as indicated in the DPE guidelines of March, 1992, alone can steer a company on the path of success. The Committee are not at all convinced with the plea of the impending disinvestment as the reason for not constituting the Board of Directors fully and they feel that the vacancies on the Board of Directors of the company should have been filled up so that the state of affairs improved in the company and the buyers offer a better bid during the disinvestment process.”

11. The Ministry of Civil Aviation in their Action Taken reply on the above recommendation furnished to the Committee on 20 May, 2002 has stated as follows :

“A proposal regarding reconstitution of Board of Directors of Air India Limited had been sent to the Department of Personnel and Training (DOPT) in April, 2000 for seeking the approval of the Appointments Committee of the Cabinet (ACC). Approval of ACC is still awaited.”

12. Subsequently, when the Committee enquired from the Ministry of Civil Aviation about the reasons for not providing the above information on earlier occasions such as oral evidence stage, written reply stage, post-evidence stage

etc., the Ministry of Civil Aviation submitted to the Committee on 3 September, 2002 as under :

“.....the proposal submitted to DOPT does not involve the appointment of Functional Directors and it was relating to non-Functional Directors on the Board of Air India. This was also kept pending in view of the disinvestment of Air India, as the selection for the post of Four Functional Directors through the PESB would have taken some months and it was felt that there would be no advantage in pursuing their appointment since the privatization formalities were likely to be concluded within a year.

DOPT now vide their letter dated the 31st July, 2002 has requested this Ministry to obtain the approval of the new Minister of Civil Aviation to the said proposal.

Accordingly, the issue is under consideration of the Ministry.”

13. In this connection, when the Committee asked Department of Personnel and Training (DOPT) about the reasons for the delay in obtaining approval of the Appointments Committee of the Cabinet (ACC) of the proposal for reconstitution of Board of Directors of Air India Ltd., DOPT stated on 2 August, 2002 as follows:

“A proposal for reconstitution of the Board of Directors of Air India Limited vide Ministry of Civil Aviation No.AV-18012/02/911-AI dated 17.04.2000 was received in this Department in April, 2000.

The matter had been under process. The Minister in-charge of the Ministry of Civil Aviation has changed since the proposal was submitted to this department. Therefore, the Ministry of Civil Aviation has been asked to obtain the approval of the present Minister to the said proposal.”

14. The Committee in their Seventh Action Taken Report on Air India Ltd. which was presented to the Lok Sabha on 13th December, 2002 have recommended as under:

“The Committee note that the Ministry of Civil Aviation had sent a proposal regarding reconstitution of the Board of Directors of Air India Limited to the Department of Personnel and Training (DOPT) in April, 2000 for seeking the approval of the Appointments Committee of the Cabinet (ACC). However, this information was not furnished to the Committee by the Ministry of Civil Aviation at the time of oral evidence before the Committee which took place on 8th August, 2000. Nor was this information furnished

by the Ministry at the time of furnishing written replies to the Committee. The Committee are of the view that had this information been furnished to the Committee either at the time of evidence or at the time of furnishing written replies, the Committee would also have taken the evidence of the representatives of DOPT to ascertain the status of the matter and would have recommended in right earnest. They, therefore, deplore such an attitude of the Ministry in not furnishing the relevant information to the Committee. The Committee further note that the proposal submitted to DOPT does not include the appointment of Functional Directors on the Board of Air India. They gather an impression that Air India has not initiated any action with regard to induction of Functional Directors in the Board of Directors which are considered to be vital posts in the Board of Directors of any company as they provide the functional inputs into the dynamism of an enterprise. The Committee, therefore, take strong exception to such an act by the Ministry of Civil Aviation as this has kept the Committee in the dark in regard to any action taken in connection with the constitution of the Board of Directors. The Committee feel that any delay in filling up the vacancies, particularly of Functional Directors in the Board of Air India will disable the company, as the Board cannot get the appropriate inputs for decision making in several critical areas of functioning of the Company. They, therefore, recommend that all the vacancies on the Board of Directors of Air India should be filled up within a specific time-frame. The Committee are also surprised to note that although the proposal for reconstitution of the Board of Directors of Air India was sent to DOPT in April, 2000, DOPT did not take prompt action and it requested the Ministry of Civil Aviation only in July, 2002 to obtain approval of the new Minister of Civil Aviation to the said proposal. Moreover, the Committee have come to understand that the Minister in charge of Civil Aviation has changed w.e.f. 1.9.2001. The Committee find that the Ministry of Personnel woke up to realize the fact of change of Minister in Civil Aviation Ministry only after some 10 months of the Cabinet reshuffle and that too after a letter enquiring about the status of the matter was sent by the Committee to the Ministry. The Ministry of Personnel did not also have the fairness to indicate in their reply to the Committee the date on which they wrote to the Civil Aviation Ministry seeking concurrence of the new Minister and have cleverly tried to suppress the date of their communication to the Ministry of Civil Aviation. The Committee desire that an enquiry should be conducted as to why such a delay occurred in processing the proposal. The Committee, therefore, express their strong displeasure over the inaction on the part of DOPT in the matter. They are of the opinion that DOPT and the Administrative Ministries concerned should make combined efforts to ensure that undue delay does not occur in filling up the Board level posts in the Public Sector Enterprises.

The Committee wish to point out that the original Action Taken reply furnished by the Ministry of Civil Aviation did not even reveal the fact that their reconstitution proposal was only for filling up of the posts of Non-functional Directors and not that of the posts of Functional Directors. It is only when a clarification was sought, this fact came to light. The

Committee feel that there was a deliberate attempt to mislead the Committee by not furnishing proper and complete reply to the Committee and they desire that a proper enquiry should be conducted as to how such a sketchy and misleading reply was approved in the Ministry for submission to Parliament.

When they made this recommendation, the Committee knew very well that Disinvestment was a time-consuming process and Air India's performance was already poor and as such it was not possible to get a good price in a disinvestment bid and, therefore, recommended the inclusion of Functional Directors in the Board as a quick measure to tone up the performance of Air India which in turn could increase its valuation in a very short period. The Committee find that the Ministry of Civil Aviation could not appreciate this fact and failed to bring the recommendation of the Committee to the pointed attention of the Department of Personnel by sending a fresh proposal for inclusion of Functional Directors in the Board. The Committee, therefore, reiterate their recommendation that immediate positive action should be taken by the Government to reconstitute the Board of Directors as recommended by the Committee within three months of presentation of this Report. "

15. In their Action Taken reply furnished to the Committee vide O.M. dated 26 September, 2003 in connection with the above recommendation, the Ministry of Civil Aviation have stated as under:

"In April,2000 the Ministry had sent a proposal to the Department of Personnel & Training (DOPT) for obtaining the approval of A.C.C for reconstitution of the Board of Directors of Air India Limited for a period of 3 years or till the disinvestment of Government equity in Air India was finalized. In the proposed reconstitution, the Ministry had suggested to include some names of experts from various fields, in place of the slots of 4 Functional Directors keeping in view the impending disinvestment of Air India Ltd.

However, in July 2002, the DOPT wrote to this Ministry asking for obtaining the approval of the new Minister-in-charge to that proposal. The matter was under consideration in the Ministry. In the mean time new Minister of Civil Aviation has assumed charge. Now the proposal for reconstitution of the Board of Directors of Air India Limited has been put up before the new Minister of State (Independent Charge) of Civil Aviation."

16. On 17th April 2000, the Ministry of Civil Aviation wrote a letter to the Department of Personnel forwarding a proposal regarding reconstitution of the Board of Directors of Air India for clearance by the Appointments Committee of the Cabinet (ACC). The proposal did not envisage appointment of four Functional

Directors to the Board and in their place, the proposal sought appointment of some experts in the Board. When asked to state if this step does not constitute a violation of the Order dated 12.12.1998 which specified that four Functional Directors and five non-Official Directors would be appointed to the Board of Directors and also contradicts the stated position in reply to Unstarred Question no. 2595 on 16th December, 1999 in Lok Sabha, the Ministry of Civil Aviation in a written reply to the Committee intimated as under:-

“After the order dated 12.12.1998, the Ministry interacted with the Air India to obtain and consider the job description of the four posts of Functional Directors so as to send a proposal to DPE/ PESB for creation/ filling up of these posts. After getting the requisite information from Air India, Ministry consulted the DPE who informed that the proposal should contain a structure of the Board, organizational chart, job functions to be performed by the Functional Directors and justification for creation of these posts. DPE also stated that their OM. Dated 11.04.1994 should be followed. Thereafter, a proposal for creation of four posts of Functional Directors in Schedule “B” in the Scale of Pay of Rs.25, 750 – 30,950 in Air India was prepared and put up for taking up with the DPE. In consultation with the Air India it was decided that the four posts proposed to be created would be designated as Dy. MD (Finance), Dy. MD (Commercial), Dy. MD (Engineering) and Dy. MD (Personnel).

However, when the above proposal was submitted to the then Minister (CA), he observed on 22.12.1999 as under:-

“The proposal for creating four posts of the Functional Directors is not in tune with the Government policies as on date on the PSUs. The history tells that out of three Dy. MDs, one post of Dy. MD (Engineering) is filled up viz. Shri Gogoi whereas the other two posts are vacant for quite some time, meaning thereby that the Air India can function even without these posts being there.

In both the Houses of Parliament a debate has taken place wherein Hon’ble Members of Parliament had raised the issue of over-staffing in the Air India and Indian Airlines with special reference to manpower per aircraft and the top being very heavy leading to the pyramid becoming a parallel line. An assurance has been given to both the Houses of Parliament that administration will be toned up and pyramid will be maintained thus making the administration more responsive curtailing the expenses at the same time.

Since the draft Cabinet Note has been approved for Disinvestment in Air India, it was felt that it will not be wise to create more liabilities before strategic partner is chosen, who would be otherwise given a free hand in the Management of the Air India affairs to make it a more viable project.”

Subsequently on 24.12.1999 the then Secretary (CA) submitted a Note to the then Minister (CA) mentioning inter-alia that it is true that the airline was likely to be privatized in the near future and DPE may be requested to condone this requirement for reconstitution of the Board of Directors of the two Airlines and maintain status quo. This would also be reasonable because the selection through PESB would take time, by when, the process of disinvestment may have taken definite shape.

The above note was seen by the then Minister (CA) on 30.12.1999 who further observed as under:-

“It will be seen from the proposal that the four Deputy M. Ds will be largely promoted from the cadres of Commercial, Engineering, HRD and Finance. There are 12 other departments in Air India who will have no avenue of promotion leading to frustration and demoralization. It is expected that engineering and commercial are key to revenue generation and having a Deputy M.D. from each of these departments may be logical. The responsibilities and eligibility of the other two Deputy MDs should be suitably redrafted so that the remaining departments may also become eligible and have avenue of promotion. The DPE can be advised of the revised proposal, as airline business is special and cannot be compared with any other public sector undertaking.

At a time when the staff is being urged to ensure cost cutting steps, retirement age has been rolled back from 60 to 58 years, vacancies for loaders and airline staff frozen, recruitment completely banned, it will be self contradictory for the management to increase top level posts and send wrong signals to employees and unions. These steps for organizational restructuring be considered after the financial results for the year 1999 – 2000 are available and show a definite turn around. The DPE’s advice for creating Board level posts is already one year old and the DPE may be advised of our financial position and understanding with the Air India employees of reducing establishment cost.

To make Air India employees feel re-assured that the management is not curtailing only their prospects it will be desirable to continue with the present structure with one Deputy M. D. and departmental heads. Since the proposal for creating four posts of Board level Functional Directors (in Schedule B) on the two airlines even after keeping in abeyance the corresponding posts in the present organizational set up (in Schedule C) will involve extra expenditure; we may write to DPE for the waiver and for maintaining status quo.

The Board of the two airlines may be constituted as per the past practice from Government nominees and nominated members from public.”

In the note submitted by the then Secretary (CA) to Minister (CA) on 31.1.2000, it was mentioned that the reconstitution of the Board of Directors of Air India Limited was discussed with MCA. Since the Functional Directors were to be selected by PESB which would take some months, and Air India was likely to be privatized, it was thought that there was no need for filling these positions in the Board of Directors at that juncture. This would leave nine vacancies apart from official Directors. Minister (CA) desired that these should be filled from non-official Directors. Accordingly names of 9 reputed persons of various fields were suggested in the proposal sent to DOPT on 17.04.2000.

The decision that the Board should have Four Functional Directors was taken by the ACC. A proposal to keep this in abeyance also was submitted to ACC only. Hence it would not be correct to say that the order dated 12.12.1998 was violated.”

17. When enquired whether the Ministry had issued any order modifying the Order dated 12.12.1998, the Ministry of Civil Aviation informed as under:-

“No Order modifying the order-dated 12.12.1998 was issued. This Ministry has issued various orders to only replace the names of Chairman, Air India and other Government Directors since the incumbents holding those posts in the Ministry changed from time to time due to retirement / transfer etc.

18. It was pointed out by the Committee that the Secretary, Ministry of Civil Aviation while tendering evidence before the Committee on 8th August, 2000 did not reveal the fact about the proposal regarding reconstitution of the Board of Directors of Air India with no Functional Directors already sent on 17th April, 2000 to DOPT for ACC clearance. The Original Action Taken reply sent on 15th May 2002 also did not reveal this fact. It came to the notice of the Committee only on 23rd August 2002 in response to a clarification sought by the COPU Secretariat on 29th July, 2002. When asked to state as to why this information was

concealed from the Committee during evidence and in the written replies furnished to the Committee thereafter, the Ministry of Civil Aviation in a written reply to the Committee informed as under:-

“There was no deliberate intention to conceal any information from the Committee. It was thought that since the proposal sent to DOPT on 17.04.2000 for ACC approval was only at a proposal stage and it was likely that there would be some further correspondence / interaction between Ministry and DOPT by way of seeking clarifications on any point as normally happens with such type of proposals sent to DOPT, the details of the proposals were not highlighted before the Committee. It may also be noted that while giving comments on point no.20 (c) & (d) regarding filling up of the posts of Functional Directors, in the written replies sent by the Ministry on 29.8.2000, it had been mentioned that the posts of Functional Directors were not being filled up in view of the proposed disinvestment of Air India. However, the fact that this information was not brought to the notice of the Committee is sincerely regretted.”

19 The Ministry of Civil Aviation has also informed to the Committee that the proposal for reconstitution of the Board of Directors of Air India which was sent to DOPT on 17.4.2000 for obtaining approval of ACC remained with DOPT till July 2002. On 31.7.2002 DOPT wrote back saying that the proposal may be sent with the approval of the new Minister.

20. It was pointed out by the Committee that the Department of Personnel had returned the proposal of Ministry of Civil Aviation on 31st July 2002 for the purpose of securing the concurrence of the new Minister of Civil Aviation for the proposal. On 26th May 2003, another new Minister has taken over charge of the Ministry of Civil Aviation. When enquired what action was taken by the Ministry of Civil Aviation after the receipt of communication dated 31st July 2002 from the

Department of Personnel, the Ministry of Civil Aviation informed the Committee as under:-

“It is a fact that after July 2002 there was delay in processing this case in the Ministry, which is sincerely regretted. It may be mentioned that uncertainty prevailed on major decisions in respect of Air India on account of the proposed disinvestment and even crucial matters like fleet acquisition had to be put on hold. Cabinet Committee on Disinvestment removed Air India from disinvestment list on 15.4.2003. The new Minister joined office in May 2003.

Thereafter, the matter regarding appointment of Functional Directors was submitted to Minister and a considered decision has been taken to fill up the posts of Functional Directors through Public Enterprises Selection Board (PESB). A proposal in this regard has already been forwarded to PESB.”

21. When asked about the delay in implementation of recommendations of the Report the Secretary, Civil Aviation during the evidence stated as under:-

“I would like to apologise that not only there has been some delay in the implementation of this report but in our responses to the Committee some of these points were not very specifically stated. On behalf of the Ministry, I apologise for this and express my regrets. I would like to assure you that this will not happen again.

An order was issued in 1998 on how the Board should be reconstituted in line with the guidelines issued by the BPE. Simultaneously, actually the disinvestments process also had started. This is going on parallelly. In the beginning of the year 2000, the then Minister took a decision that in view of the fact that the disinvestment process was on and also that there is a lot of criticism in Parliament and in public about overstaffing in these airlines, and because appointment of full time Directors will add to the cost, there is no need for immediately filling up these posts and these slots also should be filled up with non-official, Part-time Directors. Accordingly, the proposal was sent to the Department of Personnel.

After it was returned to us to be resubmitted to the new Minister, a decision was delayed because there were various things going on at that time including the consideration of the various recommendations for merger of the two national carriers Air India and Indian Airlines on possibly a common Board. We also appointed a Consultant to work out the details of how this could be done and how the best synergy could be effected.

So, it was felt that some of these things could be sorted out before a formal recommendation for reconstitution should be sent. But it took time. It took longer than what we had originally anticipated. In the meanwhile there was a change of Minister again and then it was put up to the new Minister.

I am happy to report that the new Minister has now passed orders that as per the recommendation of this Committee, and also in terms of the order, the posts of functional Directors should be filled up and also the Board should be reconstituted. So, we have already written to the PESB for initiating the process and the process has started.”

22 Asked to state when was the proposal for disinvestment of Air India initiated in the first instance and when did the Government decide not to go ahead with the disinvestment of Air India, the Ministry of Civil Aviation in a written reply to the Committee intimated:-

“The Ministry received the recommendations of the Disinvestment Commission in August 1998. Thereafter action on the recommendations was initiated by the Ministry. The Cabinet Committee on Disinvestment (CCD) decided on 15.04.2003 to delete Air India Limited and Indian Airlines Limited from the Disinvestment list. “

23. As intimated to the Committee the Composition of the existing Board of Air India is as under:-

1. Shri K. Roy Paul, Secretary (CA) Part time Chairman
Ministry of Civil Aviation
2. Shri Sunil Arora, CMD, IAL is holding
additional charge of MD, AI w.e.f 1.8.03
3. Shri Raghu Menon, Joint Secretary
Ministry of Civil Aviation
4. Shri V. Subramanian, AS & FA
Ministry of Civil Aviation
5. Shri S.K. Narula, Chairman,
Airports Authority of India (AAI)

6. Shri N. Vaghul, Chairman, ICICI

7 to 10. Functional Directors (Four)	} These posts } are } vacant at } present.
(Financial, Commercial, Engg. & Personnel)	
11 to 15. Non-Official Directors (Five)	

PART-B

RECOMMENDATION OF THE COMMITTEE

NEED TO FILL UP VACANT POSTS ON BOARD OF DIRECTORS OF AIR INDIA.

The Committee note that the Ministry of Civil Aviation had issued an Order on December 12, 1998 regarding reconstitution of the Board of Directors of Air India Ltd. which envisages appointment of four Functional Directors in charge of Commercial, Engineering, Finance and Personnel and five Non-official Directors in the Board of Directors of Air India Ltd. The Committee further note that in April, 2000 the Ministry of Civil Aviation had sent a proposal to the Department of Personnel and Training (DOPT) for seeking approval of the Appointments Committee of Cabinet (ACC) regarding reconstitution of the Board of Directors of Air India Ltd. for a period of 3 years or till the question of disinvestment of Government equity in Air India was finalized. The Committee are surprised to note that in the proposed reconstitution of the Board of Directors, the Ministry had suggested to include some names of experts from various fields in place of the slots of four Functional Directors keeping in view the impending disinvestment of

Air India Ltd. However, the Committee note that though the decision to include experts in place of Functional Directors was taken in January, 2000, this information was not furnished to the Committee by the Ministry of Civil Aviation at the time of oral evidence before the Committee which took place on 8th August , 2000. Nor was this information furnished by the Ministry at the time of furnishing written replies to the Committee. In this regard, the Secretary, Civil Aviation while tendering evidence before the Committee on October 20, 2003 expressed regrets not only for delay in implementation of the recommendation of the Committee but also for some of the points which were not specifically replied to the Committee. The Ministry of Civil Aviation has now informed the Committee that a decision has been taken at the Minister's level for filling up the posts of Functional Directors through Public Enterprises Selection Board (PESB) and a proposal in this regard has already been forwarded to PESB. The Committee also note that Air India has been removed from the Disinvestment list as per the decision taken by the Cabinet Committee on Disinvestment on 15th April, 2003. The Committee

feel that the Government should have professionalized Board of Directors for Air India as per the DPE guidelines of March, 1992 regarding composition of Board of Directors in public sector undertakings. They, therefore, recommend that four posts of Functional Directors in charge of Finance, Commercial, Personnel and Engineering and five posts of Non-official Directors should be filled up in the Board of Directors of Air India without any further loss of time.

New Delhi
17 December , 2003
26 Agrahayana,1925(S)

PROF. VIJAY KUMAR MALHOTRA
CHAIRMAN
COMMITTEE ON PUBLIC UNDERTAKINGS

Annexure-I

No. 18(6)91-GM
Government of India
Ministry of Industry
Department of Public Enterprises

Public Enterprises Bhawan,
14, CGO Complex, Lodi Road,
New Delhi-110003.

Dated the 16 March, 1992

OFFICE MEMORANDUM

SUBJECT: Composition of Board of Directors of Public Sector Enterprises.

The question of Composition of the Board of Directors of PSEs has been considered from time to time and various guidelines have been issued in this regard by the Bureau of Public Enterprises. The Members of the Board of PSEs generally consist of the following three categories:-

(i) **Functional Directors:-** These are full time operational Directors responsible for day to day functioning of the enterprise. The Economic Administrative Reform Commission (EARC) had recommended that each Board should have an adequate number of Functional Directors on it. This was considered by the Government and the Bureau of Public Enterprises had issued guidelines in 1984 that the posts of Director (Finance) and Directors (Personnel) be created in all Schedule "A" and Schedule "B" enterprises and on a selective basis on Schedule "C" Companies. Apart from these two functions, the enterprises could have representation at Board level for other disciplines such as production, marketing, project planning etc. It is, however, observed that these guidelines are not being followed by the Administrative Ministries while constituting the Boards of PSEs. While in some cases the Boards are functioning without a single Functional Director, in others there is preponderance of such Directors.

(ii) **Government Directors:-** These are appointed by the Administrative Ministries and are generally the officers dealing with the concerned enterprise. In most cases there are two such Directors on a Board; the Joint Secretary or Additional Secretary dealing with particular enterprise and the Financial Adviser of the Ministry. The question of representation of Government Directors on the Boards of PSEs was examined by the Arjun Sengupta Committee and following its recommendation, the Bureau of Public Enterprises have issued guidelines in 1986 that the Administrative Ministry concerned should not have more

than one nominee Director on the Board of a PSE. In case of PSEs engaged in trading or dealing with important and exclusive items the number of Government Directors could be two. It is, however, noticed that in actual practice the number of Government Directors on the Boards of PSEs continues to be large.

(iii) Non-Official Directors:- The induction of Non-Official Directors on the Boards of PSEs has been considered essential by various Committees and Commissions in order to make the Boards more professional. They are to be drawn from the public men, technocrats, management experts and consultants, and professional managers in industry and trade with a high degree of proven ability. The Bureau of Public Enterprises have issued guidelines in 1983 that the number of such Directors on a Board should be one third of its total strength. This input is considered very important as it plays a complementary role in providing professional and managerial advice to the Board. It has however, been the experience that the vacancies of these Directors are not filled up to stipulated levels in many enterprises by the Ministries.

2. The Department of Public Enterprise has recently considered the question of professionalisation of the Boards of PSEs in pursuance of the New Industrial Policy Statement made in the Parliament on 24th July, 1991 and it has been decided that the composition of the Boards of Directors in PSEs should be broadly on the following lines:-

(A) FUNCTIONAL DIRECTORS:

(i) Every Board should have some full time Functional Directors. The number of such Directors on a Board should not exceed 50% of the actual strength of the Board.

(ii) In cases where the number of Functional Directors on the Board is more than the 50% of its actual strength (not sanctioned strength), Administrative Ministries will immediately undertake a review of the strength of the Board in consultation with Department of Public Enterprises and PESB.

(iii) On such Boards where the posts of Functional Directors do not exist, Administrative Ministries will take immediate steps to create such posts in accordance with the prescribed guidelines.

(B) GOVERNMENT DIRECTORS:

(i) The number of the Government Directors on the Boards of Directors of an enterprise should not exceed one-sixth of the actual strength of the Board.

(ii) It will be preferable to have only one Government Director from the concerned Administrative Ministry on each Board. The choice of

the nominee Director would vest with the Secretary of the concerned Department.

(iii) In case of PSEs where it is considered essential to give representation on the boards to other concerned Government agencies/Ministries/State Governments, only one representation from the Group could also be appointed on the Board as Part-time Government Director.

(iv) The number of Government Directors on a Board should in no case exceed two.

(C) NON OFFICIAL DIRECTORS:

(i) The number of Non-Official Part-time Directors on a Board should be at least one-third of its actual strength. Wherever there is under representation of such Directors on the Board the concerned Ministries should take immediate steps to fill up the vacancies to stipulated level.

(ii) A Panel of suitable persons who could be considered for appointment as Non-Official part-Time Directors on the Boards of PSEs will be maintained centrally by Department on Public Enterprises. This panel will be prepared in consultation with PESB and the Secretary of the concerned Administrative Ministry.

(iii) All Ministries/Departments concerned with Public Sector Enterprises are requested to strictly adhere to above guidelines in the composition of the Boards of Directors in respect of PSEs under their administrative control.

Sd/-

(SURESH KUMAR)

Secretary to the Government of India.

To,

All the Secretaries of the Administrative Ministries/Departments concerned with Public Sector Enterprise.

Copy for information to:

- (i) Public Enterprises Selection Board (Shri D.K.Biswas, Secretary)
- (ii) Establishment Officer (Shri N.N.Mohanty), Deptt. of Personnel, North Block, New Delhi.
- (iii) Cabinet Secretariat (Shri B.K.Das, Joint Secretary) Rashtrapati Bhawan, New Delhi.
- (iv) The Chairman, Standing Conference on Public Enterprises, SCOPE Complex, 7, Lodi Road, New Delhi.

Sd/-

(R.D.JOSHI)

Director

ANNEXURE-II

**MINUTES OF THE 4th SITTING OF THE COMMITTEE ON PUBLIC
UNDERTAKINGS HELD ON 20th OCTOBER, 2003**

The Committee sat from 1600 hrs to 1700 hrs.

CHAIRMAN

Prof. Vijay Kumar Malhotra

MEMBERS

LOK SABHA

2. Shri Ram Tahal Chaudhary
3. Smt. Reena Choudhary
4. Smt. Sangeeta Kumari Singh Deo
5. Shri Vilas Muttemwar
6. Shri Shriniwas Patil
7. Shri Prabhat Samantray
8. Shri Tarit Baran Topdar
9. Shri Dinesh Chandra Yadav

RAJYA SABHA

10. Shri Lalitbhai Mehta
11. Shri Kalraj Mishra
12. Shri Satish Pradhan

SECRETARIAT

- | | | |
|----|--------------------------|------------------|
| 1. | Shri S. Bal Shekar, | Director |
| 2. | Shri C. S. Joon, | Deputy Secretary |
| 3. | Shri Raj Kumar, | Under Secretary |
| 4. | Shri P. V. L. N. Murthy, | Under Secretary |

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REPRESENTATIVES OF THE MINISTRY OF CIVIL AVIATION

- | | | |
|----|-------------------|-----------------|
| 1. | Shri K. Roy Paul, | Secretary |
| 2. | Shri Raghu Menon, | Joint Secretary |
| 3. | Shri R. K. Singh, | Director |

REPRESENTATIVES OF THE DEPARTMENT OF PERSONNEL & TRAINING

- | | | |
|----|-------------------|-----------|
| 1. | Shri S. S. Dawra, | Secretary |
|----|-------------------|-----------|

2. Shri Champak Chatterjee, Additional Secretary
3. Shri R. R. Prasad, Director

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3. The Committee, thereafter, took oral evidence of the representatives of the Ministry of Civil Aviation and Department of Personnel & Training in connection with the Action Taken Reply furnished on the implementation of recommendation contained in the 7th Report of CPU on Air India Ltd. (13th Lok Sabha) regarding 'Reconstitution of the Board of Directors'. The representatives were asked to furnish written replies to the lists of points which were already forwarded to them.
4. A copy of the verbatim proceedings has been kept on record separately.

The Committee then adjourned.

The Committee sat from 1600 hrs to 1700 hrs.

Prof. Vijay Kumar Malhotra

2. Smt. Sangeeta Kumari Singh Deo
3. Shri C. K. Jaffer Sharief
4. Shri Shrinivas Patil
5. Shri Tarit Baran Topdar
6. Prof. Rita Verma
7. Shri A. K. S. Vijayan

8. Shri Suresh Kalmadi
9. Shri Lalitbhai Mehta
10. Shri Satish Pradhan
11. Shri Jibon Roy

1.	Shri S. Bal Shekar,	Director
2.	Shri C. S. Joon,	Deputy Secretary
3.	Shri Raj Kumar,	Under Secretary
4.	Shri P.V.L.N. Murthy	Under Secretary
5.	Shri Ajay Kumar	Assistant Director

2. XXXX XXXX XXXX

3. The Committee, thereafter, took up for consideration the draft Reports on Air India Ltd.-Reconstitution of Board of Directors and Hindustan Petroleum Corporation Ltd. – Infructuous Expenditure on creation of a pipeline and adopted the same without any modifications.

4. The Committee authorised the Chairman of the Committee to finalise the aforesaid Reports on the basis of factual verification by the Ministries / Undertakings concerned and to present the same to the Parliament.

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6. XXXXX XXXXX XXXXX

The Committee then, adjourned.